

## **Medicare Supplemental Insurers May Benefit From Retiree Health Benefit Cuts**

OLDWICK, N.J. October 31 (BestWire) — As large U.S. employers begin cutting retirees' health insurance benefits, those companies with business in the employer-sponsored Medicare supplemental/Medigap market should benefit, while third-party administrators of employer self-funded health benefits plans are likely to be left out in the cold, experts say.

In October, the United Auto Workers approved a tentative agreement with General Motors Corp., the world's biggest automaker, that would require union retirees to pay monthly insurance premiums and annual deductibles to help reduce GM's health insurance costs. Affected are 500,000 GM retirees, spouses and dependents and GM's 118,000 active hourly employees.

GM, which spends \$5.6 billion annually on employees' health insurance, incurred about a \$2.3 billion loss in its North American operations for the first half of this fiscal year and posted a \$1.6 billion third-quarter net loss.

Retirees will go from having no out-of-pocket cost for insurance premiums to paying monthly premiums of \$10 for individual retirees and \$21 a month for families. Active employees would defer \$1 an hour in future pay increases. The agreement would cut GM's retiree health expenses by about 25%, or \$15 billion.

Michael Taylor, a principal with consulting firm Towers Perrin, said it's conceivable that in the future, large U.S. employers, or those with 5,000 or more employees, may not offer their retired employees health benefits.

"If health care continues to increase...and the world becomes more globally competitive, there is absolutely a time when retiree medical will not be offered by many of the larger corporations today," he said.

And winners will emerge as employers cut back or cut out retiree health benefits completely.

In particular, life insurance companies with business in the employer-sponsored Medicare supplemental/Medigap insurance lines are best positioned to profit, said Samuel H. Fleet, president and chief executive officer of National Employee Benefit Cos., a Rhode Island-based wholesale brokerage and third-party administrator in the employee and retiree benefit industry.

Medium-size to large firms that now are self-funded are moving toward fully insured plans that are partially or 100% voluntary, said Fleet, who referred to the expected boom in the voluntary benefit market. Firms with 1,000 or more employees are likely to self-insure, according to Fleet.

A voluntary benefit refers to insurance coverages and other benefits — such as life, dental and disability insurance — sold to employees at their workplace. Many employers are looking to voluntary benefits as costs for medical insurance have soared, because it lets them continue to offer a full benefit package to employees while keeping costs manageable, according to Fortis Benefits. Employees can choose products and coverage levels and pay for those coverages at group rates through payroll deduction.

With a 100% voluntary program, for example, an employer would allow retirees to purchase a group policy, essentially saying, "You, Mr. or Mrs. Retiree, have to pay 100% of the premium, but we are going to sponsor it because we can get you a better rate and benefit than you would on your own," explained Fleet.

Recently, a steel company terminated its self-funded retiree benefits and converted that business to a fully insured plan with Hartford Life, a unit of Hartford Financial Services Group Inc., a company that's a big player in the employer-sponsored Medicare supplemental market, he said.

These insurance companies currently are enrolling tens of thousands of lives in these policies, he said. Other companies with business in the employer-sponsored Medicare supplement market, Fleet said, include Monumental Life Insurance Co., a member of Aegon USA Inc., and Sterling Life Insurance Co.

Under a voluntary program, an employer's retirees would maintain Medicare's Part A, hospitalization; and Part B, doctors; and these insurers would offer a Medicare supplement policy for both the deductibles and copayments not covered under Parts A & B, Fleet explained.

But such conversions to fully insured plans point to a downside for third-party administrators, or the companies that provide services to self-funded employers, said another observer.

These switches threaten a major impact on companies that administer retiree benefits, said John Gorman, president and CEO of Gorman Health Group, a Washington, D.C.-based managed care industry consultant. Many "are going to get left on the side of the road," he said, adding that these companies are mostly straight TPAs, not insurers or managed care companies, but may include them as well.

Meanwhile, PacifiCare Health Systems Inc., the largest U.S. publicly traded Medicare managed care company, leads some of its bigger competitors, such as Aetna Inc. and Cigna Corp., in the Medicare supplemental market, according to Scott J. Fidel, senior managed care analyst with JPMorgan Equity Research.

It's hard to get enrollment figures for Medicare supplemental for the managed care companies, as they often include those figures in their general "Medicare" enrollment, alongside their Medicare Advantage membership, he said.

But PacifiCare "clearly breaks it out," Fidel said, saying PacifiCare has about 40,000 Medicare supplemental members. Another company that clearly reports such policies is Universal American Financial Corp. (NASDAQ:UHCO), which had about 305,400 such policies at June 30, he said.

Ultimately, the trend will make the new Medicare prescription-drug plans offered by managed care companies more attractive because retirees won't have many other alternatives, the experts said. Indeed, major managed care companies expect to boost their Medicare enrollments, and bottom lines, from the federal government's new multibillion-dollar prescription-drug benefit,

Part D, set to launch Jan. 1, 2006.

Seniors with Medicare Part A and/or Part B can enroll in stand-alone prescription-drug plans, which add coverage to the original Medicare plan, or enroll in Medicare Advantage plans such as health maintenance organizations or the new regional preferred provider organizations.

But NEBCO's Fleet said seniors, who want freedom of choice in their doctors, aren't big fans of Medicare managed care. "They've got the cardiologist, the oncologist — all of these 'ologists,' and the last thing they want to do is call their primary-care physician, in a Medicare Advantage plan, to get referrals for them," he said, noting that under original Medicare, seniors have freedom from the referral process.

Attempts to speak with Aetna and WellPoint Inc. (NYSE: WLP) for comment for this story were unsuccessful.

Gloria Barone, a Cigna spokeswoman, said that the company "sees opportunity in the voluntary market, as more employers shift benefits cost to employees and consumers are becoming more responsible for choosing their benefits."

Attempts to speak with America's Health Insurance Plans, the industry trade group, also were unsuccessful.

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